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Report On Business®

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Purchasing Index Increases

Prices Jump

Employment Advances Sharply

Analysis by the Business Survey Committee; chairman, Robert J. Bretz, C.P.M., director of materials management, Pitney Bowes, Inc.

The *Report on Business* is published monthly by the National Association of Purchasing Management, based on data compiled from replies to questions asked of purchasing managers in some 250 industrial companies. Membership of the Business Survey Committee is diversified geographically, based on value added by state, and by Standard Industrial Classification category, based on each industry's contribution to national income.

April Report

The economy continued to expand in April say the nation's purchasing managers in their latest **Report on Business.** As in March, the advance was apparent in all indicators except inventories, which declined slightly. The rate of growth in production was moderately higher, continuing at a relatively strong pace. New orders also continued to grow but at a slower rate than March. The trend toward higher employment which began in January continued at an accelerated pace. Inventories declined in April at about the same rate as in March, while vendor deliveries improved. For the eighth consecutive month, more purchasers reported price increases than decreases.

The report was issued today by Robert J. Bretz, C.P.M., chairman of the National Association of Purchasing Management's Business Survey Committee and director of materials management, Pitney Bowes, Inc. Mr. Bretz said, "The economy entered the second quarter with a modest improvement over the healthy growth registered in the first quarter. The mild slowing in the rate of increase in new orders suggests continuing growth in the second quarter."

The **Purchasing Managers' Composite Index** increased slightly to 54.2% from 53.9% in March, the ninth consecutive month the index has registered over 50%. The first four months of 1987 has averaged 54.0% for this leading indicator. Mr. Bretz said, "Past experience indicates that if this average were to continue for the remainder of 1987, it would be consistent with real GNP growth of about 3%." A reading below 50% generally indicates that the economy is in a declining phase, and above 50%, that the economy is generally expanding. The index is based on analysis by the U.S. Department of Commerce. Except for this index, the information in this report is not seasonally adjusted.

Net Difference

In each category measured, this report shows a net difference. It is the difference between the number of responses in the positive direction (higher, better, faster) and the negative direction (lower, worse, slower). Analysis of the month-to-month difference compares the rate of change.

Employment

Employment increased significantly in April. March had shown the first increase after 29 consecutive months of decline. The 22% of members reporting higher employment in April is the most since May 1984 (22%). The net difference between those reporting employment as higher advanced sharply to +10 from +2 in March, and −8 in February. It is the most since July 1984 (+12).

	Higher	Same	Lower	Net Differ.
Employment %				
April	22	66	12	+10
March	16	70	14	+ 2
February	12	68	20	− 8

Buying Policy

Mirroring the continuing increase in production, leadtimes for production materials lengthened for the third consecutive month as the number of purchasers reporting leadtimes of 30 days or less declined to 51% from 55% in March, 57% in February and 59% in January. Leadtimes for maintenance, repair and operating (MRO) supplies were virtually unchanged in April. Leadtimes for capital expenditures were slightly shorter as the number of members reporting leadtimes of six months-and-longer declined to 54% from 56% in March, and 57% in February.

	Hand to Mouth	30 Days	60 Days	90 Days	6 Months and Longer
Production Materials %					
April	16	35	28	14	7
March	18	37	26	13	6
February	17	40	22	15	6
MRO Supplies %					
April	46	42	6	6	0
March	44	43	8	3	2
February	45	40	9	5	1
Capital Expenditures %					
April	11	5	13	17	54
March	13	5	12	14	56
February	13	4	8	18	57

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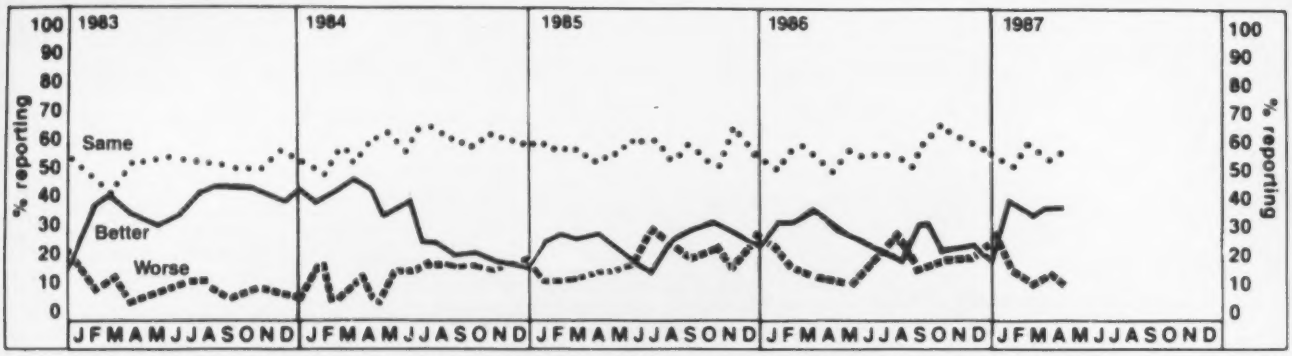
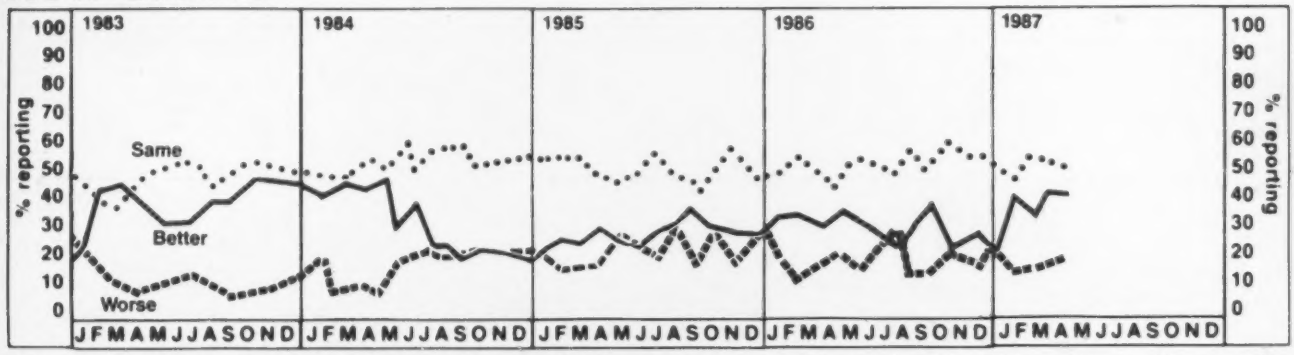
Production



The rate of expansion in production increased in April. The 35% reporting production as better is the highest since March 1986 (also 35%). Perhaps more significant is the increase in the net difference between those reporting production as better (35%) and worse (8%) to +27, the most since April 1984 (+38).

Production %	Better	Same	Worse	Net
April	35	57	8	+27
March	34	55	11	+23
February	31	60	9	+22

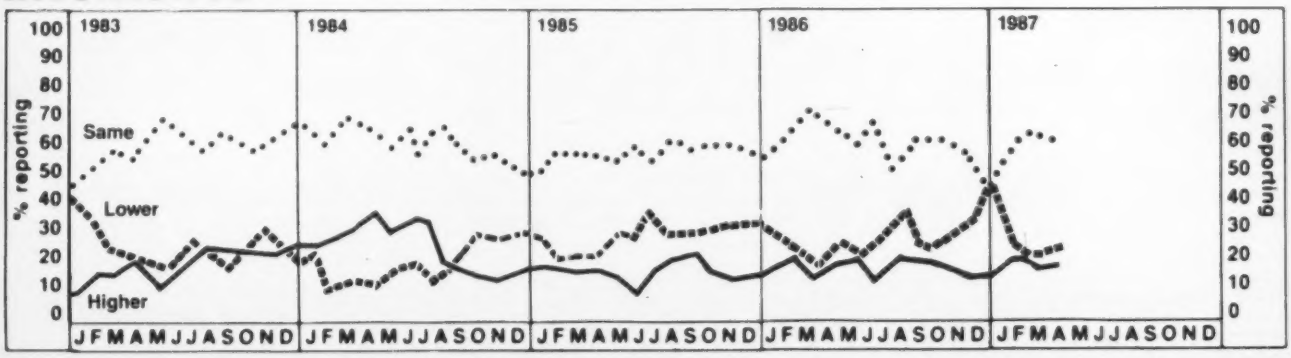
New Orders



New orders continued to expand in April, but at a somewhat slower pace than was registered in March. The 40% reporting new orders as better is off slightly from the 41% in March. The net difference between those indicating new orders better (40%) and worse (12%) declined to +28 from +32 in March but is still strong enough to be the second highest since April 1984 (+40).

New Orders %	Better	Same	Worse	Net
April	40	48	12	+28
March	41	50	9	+32
February	33	51	16	+17

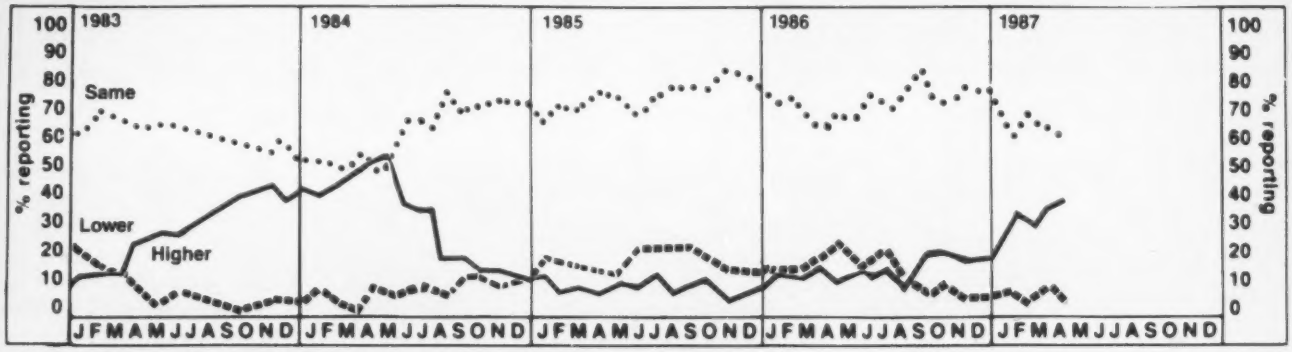
Inventories



April is the second consecutive month purchasers have indicated their inventories have been reduced slightly. Until February, when an equal number of members (19%) reported inventories as higher and lower, inventories had declined for 29 consecutive months.

Inventories %	Higher	Same	Lower	Net
April	17	62	21	− 4
March	16	65	19	− 3
February	19	62	19	0

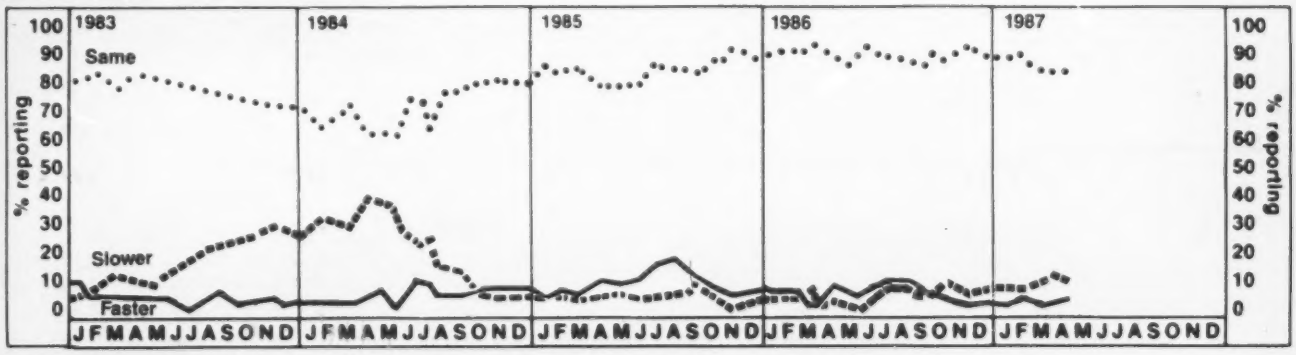
Prices



April marked the eighth consecutive month that more purchasers indicated paying higher rather than lower prices. The 39% reporting higher prices in April is the most since April 1984 (55%). The net difference between those reporting prices as higher (39%) and lower (2%) expanded dramatically to +37 from the +25 to +26 range of the first quarter. This total is also the highest since April 1984 (51%).

Prices %	Higher	Same	Lower	Net
April	39	59	2	+37
March	32	62	6	+26
February	28	69	3	+25

Vendor Deliveries



The speed of vendor deliveries improved in April after slowing in March. Members reporting slower deliveries declined to 11% from March (13%) while those reporting faster increased to 7% from 5%. However, the effects of the recently settled lengthy U.S. Steel strike continue to linger as purchasers report steel in short supply for the second consecutive month.

Vendor Deliveries %	Faster	Same	Slower	Net
April	7	82	11	– 4
March	5	82	13	– 8
February	7	84	9	– 2

Specific Commodity Changes

For the second consecutive month, steel and styrene were reported in short supply. Natural gas and glycerine were reported down in price after two consecutive months in which no significant items were reported lower priced. Numerous chemicals were reported higher in price, particularly plastic resin and plastic and synthetic rubber-producing chemicals. Many were reported higher for the second consecutive month (styrene, benzene, butadiene, plastic resins, phenol and phenon resins and methanol). Numerous metals were also reported higher: brass, bronze, copper (second consecutive month), aluminum (third consecutive month), and steel (the seventh time in the past eight months). Paper products were again reported up in price, led by corrugated shipping containers (the twelfth time in the past thirteen months), printing paper (fifth consecutive month) and caustic soda, a chemical used heavily in making paper for printing and corrugated cartons, as well as in petroleum refining (second consecutive month and the fifth time in the past eight months). Fuel oil was reported higher priced, the third time in the past four months.

UP in Price: Corrugated shipping containers, printing paper, caustic soda (used heavily in petroleum refining and paper making), aluminum, copper, brass, bronze, steel, fuel oil, phenol and phenolic resins (used in making plastic products for housing and auto products), benzene (used as a chemical solvent and in gasoline), butadiene and styrene (both used chiefly in making synthetic rubber, resins and plastics), latex (used in synthetic rubber products), plastic resins, acrylic acid and acrylate (used in making synthetic rubber and plastics), methanol (used heavily as a solvent and in synthesizing other chemicals), and many miscellaneous chemicals.

DOWN in Price: Natural gas and glycerine (used chiefly as a solvent, plasticizer and sweetener).

In SHORT Supply: Steel and styrene.

The National Association of Purchasing Management's *Report on Business* records the actual changes and rates of change in five important categories of data: production, new orders, employment, inventories and vendor deliveries. These five components, as reported, are not adjusted to compensate for seasonal variations.

Economists have devised a variety of formulas to compensate data for seasonal variations. N.A.P.M. cooperates with the U.S. Department of Commerce, which prepares the monthly Purchasing Managers' Composite Index for publication by N.A.P.M. The Department of Commerce adjusts the five above-mentioned components of the *Report on Business*, applies various weights to each and combines them into a single index number. The Composite Index is based on analysis by the U.S. Department of Commerce, and is the only part of the report adjusted for seasonal variations.

Note: The next issue of the *Report on Business* will be available June 1, 1987.

Commodity Reports

Paper Products

Prepared by the N.A.P.M. Paper Committee; chairman, Glenn Farber, C.P.M., Vanier Graphics Corporation, Santee, CA.

The mood at the recent A.P.I. Paper Week was jubilation, reflecting a record year in 1986. Slightly over 71 million tons of paper and paperboard were produced, an increase of 5.9% above 1985. The industry spent over $9 billion in capital expenditures. Labor costs have been stabilized with only minimal increases. Most mills were able to gain several increases in pulp prices along with price increases on many of their paper products. The decline of the dollar overseas made imports more difficult and also prompted increases in exports on certain grades. Fourth quarter after-tax profits of top-30 paper companies averaged a gain of 36% over 1985, but several problem areas have already emerged: declines in some stronger grades and weakening of prices.

Newsprint

Newsprint supplies have tightened rapidly. A major earthquake in New Zealand caused considerable damage at a mill rated at 300,000 TPY. Labor contracts in eastern Canada expiring April 30th and the announced targeting of the largest newsprint mill in the world have prompted some inventory buildup. Discounts are still prevalent, but are mostly holdovers from previous commitments. Newsprint had a 3.7% gain in 1986 and operated at about 96% of capacity. The best estimate at this time is an operating rate approaching 98%. The last announced increase was October 1st, and there is some feeling that there could be another price increase in the third or fourth quarter of 1987.

Uncoated Groundwood

This market is firm to tight on the bottom end products (MF grades), softening as it moves towards SC "A" products. The domestic supply of SC "A" is firm with some mills approaching an oversold condition in the fall. High brightness groundwoods are becoming more prevalent. Expectations are that this market will tighten as the major catalog season approaches. Some new capacity is scheduled for late 1987. Deliveries are running four to six weeks and inventories are stable. The pricing of this grade is in a state of confusion. Some of the bottom-end grades increased in January, while the top-end grades decreased in March.

Coated Groundwood

Coated groundwood is readily available and excess capacity prevails. International started up a 200,000 TPY machine in late December adding further pressure. Deliveries are readily available. More tonnage will become available as the four machines started up in 1986 reach full output. Inventories are decreasing; discounting is increasing. Expectations are that grade 5 LWC will continue dragging down the prices of the higher grades.

Uncoated Free Sheet

The uncoated freesheet grades still remain the shining star of the paper industry. They gained a composite 7.7% growth over 1985, including a 7.5% increase of mill inventories at yearend. There was a corresponding 4.2% increase in industry capacity. Capacity additions in late 1986 halted a price increase on January 1 and touched off further rounds of discounting in some of the grades within this classification. We should see another 4.2% increase in capacity in 1987; however, very little additional capacity is planned for 1988 and 1989. Possible labor problems in the Pacific Northwest could affect this grade. However, there should be adequate capacity to overcome any problem. The near-term projection is that prices will stay at current levels, perhaps with minor additional discounting; and inventories will decrease, with no price firming expected until the fall.

Coated Free Sheet

This grade is running similarly to the uncoated free sheet although not as extreme. There is availability and some selective discounting. The market is likely to stay soft until demand catches up with capacity. Inventories are holding level or decreasing slightly, with most grades readily available. Coated papers did make a good recovery in 1986 from the very depressed 1985, with an increase of approximately 5.6%. However, imports of coated papers are still running very high, putting added pressure on domestic manufacturers.

Bleached Bristols

Bleached bristols had growth of about 7% in 1986. Availability appears adequate and no problems are anticipated for the next six months. Inventories remain level with no changes anticipated. Selective increases may occur in some of the grades. There could be another increase later in the year, especially if the export market continues strong.

Paperboard/Linerboard

This is the other shining star of the relatively low-cost grades posting a 7.5% increase in 1986 over 1985, mostly due to very strong demand for linerboard and corrugating medium, in turn prompted by an increasing demand for corrugated boxes, resulting from an almost 14% increase in exports. Increases in linerboard prices prompted a healthy increase in container prices. In the paperboard end, SBS backlogs have strengthened but are still weaker than last fall. SUS and recycled boards are readily available in three to four weeks. Projection for the short-term is that availability will remain the same. Some price increases for SBS were announced for April. SUS and recycled likely will have no change in the near future. The linerboard increase to $380 may not be fully implemented until later in the year.

Pulp

Pulp has had its 5th consecutive quarterly increase which probably will be the last for this year. Demand for pulp overseas will put more pressure on the non-integrated domestic mills. Pulp production in 1986 rose slightly less than 6%. However, market pulp increased by 11%, driven by a strong demand for exports.

Packaging and Containers

Prepared by the N.A.P.M. Packaging and Containers Committee; chairman, Carl D. Dirkse, C.P.M., S.C. Johnson & Son, Inc., Racine, WI.

The packaging and containers market continues to strengthen. Demand for paperboard is very strong due to domestic needs and export sales resulting from the weak dollar. As a result, corrugated prices continue to escalate. Dramatic increases in pulp pricing have taken place in the last six months. The inventory surplus that existed in early 1986 was depleted in the fourth quarter. As demand for paper and paperboard remains strong, further increases are anticipated late this year. Plastic resin and packaging are also strong. Mergers and acquisitions continue throughout the industry.

Metal Cans

The USX strike is settled. The strike had minimal impact on can users. Can availability is good and prices are stable. Ownership of some can companies is still being negotiated.

Fibre Cans

Supply is still adequate-to-surplus. Some price increases are being experienced due to paperboard increases. The biggest news is the merger of Boise and Sunoco.

Glass

Glass supply is adequate but may get tighter as we get into warmer weather. Pricing is stable with one member reporting an increase. Price increases are being proposed.

Molded Plastics

Resins continue to tighten, causing some price increases. Polystyrene is in short supply. Barrier packaging enables plastic to erode some of the traditional glass container markets, including liquor. All signs point to increasing use of plastic throughout the packaging field.

Films

The supply side is very good; availability is adequate-to-surplus. However, some price increases have been announced due to increasing resin prices.

Laminated Stock

Again, availability is adequate but there is some strengthening in prices due to raw material increases.

Metal Drums

This continues to be a buyer's market. Supplies are adequate-to-surplus, and prices are stable with one member reporting a decrease.

Fibre Drums

Supply is adequate-to-surplus. However, prices are increasing due to paperboard increases and relatively few suppliers. Plastic drums are slowly replacing composite drums for shipment of hazardous liquid chemicals.

Folding Cartons

Supply is still adequate-to-surplus, but prices are increasing due to paperboard increases. Paperboard is finding increasing use in the aseptic packaging area.

Corrugated

Linerboard has stabilized at $350/ton. As a result, the majority of our members report increases in their corrugated. Export demand continues strong due to the weak dollar. If this continues, the mills may attempt another price increase in 1987. There is speculation about further corrugated increases. There are spot shortages of linerboard, but overall inventories are adequate due to the fact that some paper machines can be converted to making linerboard.

Bags

Supplies are adequate, but price increases are being experienced and anticipated due to increases in the price of paper and resins.